LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7525 | **NOTE PREPARED:** Feb 18, 2003
BILL NUMBER: HB 1858 | **BILL AMENDED:**

SUBJECT: Steel Mill and Refinery Property Taxes.

FIRST AUTHOR: Rep. Harris | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill allows a taxpayer to elect a special property tax valuation method for certain integrated steel mill and oil refinery/petrochemical equipment.

Effective Date: January 1, 2003 (retroactive).

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts *from* business personal property to other property cause the state's expense for regular PTRC and Homestead Credits to increase. Conversely, tax shifts *to* business personal property from other property cause PTRC and Homestead Credits to be reduced. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any change in PTRC or Homestead Credit payments would ultimately impact the state General Fund. The change in state expense is estimated to range from (1) a *savings* of $2.2 M in FY 2004 (partial year) and $6.3 M in FY 2005 to (2) an *increase* of $160,000 in FY 2004 (partial year) and $500,000 in FY 2005. See *Explanation of Local Revenues* for an explanation of the range.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any change in the assessed value base will similarly change the property tax revenue for these two funds. The annual revenue change is estimated as a range from a $13,000 *increase* to a $1,500 *reduction* beginning in CY 2004.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current Department of Local Government Finance rules, business personal property is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools", depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

This bill would create a fifth pool in the depreciation schedule that a taxpayer could elect to use in valuing integrated steel mill or oil refinery/petrochemical equipment. The value of property in this pool would not be subject to the 30% floor. In addition, the bill would allow a taxpayer to value all of the taxpayer's property in Pool 5 if at least 50% of the total reported property's cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment. The bill states that the new percent good factors would already reflect all adjustments for depreciation and obsolescence, including abnormal obsolescence. Therefore, a taxpayer electing to use Pool 5 would not be permitted to take any other obsolescence adjustment. The following table contains the percent good factors of the four existing pools and the new Pool 5 created in this bill.

Personal Property Depreciation Schedule					
	Pool 1	**Pool 2**	**Pool 3**	**Pool 4**	**New Pool 5**
Age of Property	**1-4 Year Life**	**5-8 Year Life**	**9-12 Year Life**	**13+ Year Life**	**All**
Year 1	65%	40%	40%	40%	40%
Year 2	50%	56%	60%	60%	56%
Year 3	35%	42%	55%	63%	42%
Year 4	20%	32%	45%	54%	32%
Year 5	20%	24%	37%	46%	24%
Year 6	20%	18%	30%	40%	18%
Year 7	20%	15%	25%	34%	15%
Year 8	20%	15%	20%	29%	10%
Year 9	20%	15%	16%	25%	10%
Year 10	20%	15%	12%	21%	10%
Year 11	20%	15%	10%	15%	10%
Year 12	20%	15%	10%	10%	10%
Year 13+	20%	15%	10%	5%	10%
	Total value of Pools 1-4 must be at least 30% of total cost (30% Floor)				No 30% Floor

Integrated steel mill property is property used to produce steel from iron ore and other materials in a blast furnace. Oil refinery/petrochemical equipment is used to process at least 100,000 barrels of crude oil per day into various petroleum products. There are three steel mill taxpayers and one oil refinery taxpayer in Indiana that would qualify to use the new pool. All of these taxpayers are located in Lake County. If all of these taxpayers elect to use Pool 5 instead of claiming abnormal obsolescence, it is estimated that this bill would reduce the TTV of these taxpayers produced by the depreciation schedule by about $575 M AV for taxes paid in CY 2004. However, beginning with taxes paid in 2001 or 2002 these taxpayers have claimed larger adjustments for abnormal obsolescence than in the past. Some of these claims are currently under appeal. The current abnormal obsolescence claims already reduce the property's valuation by a substantial amount, thereby limiting the impact of this bill.

As currently filed by these taxpayers, and assuming that these abnormal obsolescence claims are fully allowed, the current AV affected by this bill is actually smaller than the amount shown in the depreciation schedule under the Pool 5 election. Using this smaller base, the overall change in assessed value due to this bill is estimated at a range of a $408 M AV *increase* to a $4 M AV *reduction*, depending on whether or not all qualified taxpayers elect to use Pool 5. This AV change would lead to a tax shift ranging from (1) about $35 M per year from all taxpayers to the taxpayers using the new pool to (2) about $200,000 per year from the taxpayers using the new pool to all taxpayers.

Based on an estimate that, on average, two-thirds of the amount currently claimed for abnormal obsolescence will be upheld and removed from the tax base without this bill, then the change in AV under this bill is estimated to range from a $46 M AV *reduction* to a $59 M AV *increase* for taxes paid in CY 2004. This AV change would lead to a tax shift ranging from (1) about $3 M per year from all taxpayers to the taxpayers using the new pool to (2) about $7 M per year from the taxpayers using the new pool to all taxpayers.

It should be noted that since these taxpayers have already claimed the obsolescence adjustments that are under review, the assessed value used to calculate 2001 and 2002 tax rates has already been reduced and taxes have already been shifted to other taxpayers. So the actual shift compared with current taxes would be the lower estimate of a $35 M general taxpayer savings to a $200,000 savings for the steel mill and petroleum taxpayers.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would change by a range of a $1.8 M *increase* to a $170,000 *reduction*, again depending on the outcome of the adjudication on abnormal obsolescence claims and the election to use Pool 5 instead of obsolescence claims.

State Agencies Affected: Department of Local Government Finance; State Fair Board; Department of Natural Resources.

Local Agencies Affected: Local assessors and taxing units in Lake County.

Information Sources: Department of Local Government Finance; Local Government Database.

Fiscal Analyst: Bob Sigalow, 317-232-9859